HG 4527
.H3

Class HG4527
Book .H3

1912

PROCEEDINGS
OF THE
ACADEMY OF POLITICAL SCIENCE
IN THE CITY OF NEW YORK

Volume II] OCTOBER, 1911 [Number 1

CAPITAL AND LABOR UNIFIED

AN ESSAY ON THE APPLICATION OF THE INSTALLMENT SYSTEM TO INVESTMENTS

BY
WILLIAM E. HARMON

PUBLISHED QUARTERLY BY
THE ACADEMY OF POLITICAL SCIENCE
COLUMBIA UNIVERSITY
116TH STREET AND BROADWAY, NEW YORK

Entered as second-class matter Nov. 21, 1910, at the post office at New York, N. Y. under the Act of Congress, July 16, 1894.

COPYRIGHT, 1911, BY THE ACADEMY OF POLITICAL SCIENCE.

Monograph

PROCEEDINGS

OF THE ACADEMY OF POLITICAL SCIENCE

The **Proceedings** are issued by the Academy as a record of its activities and as a means of giving detailed treatment to special subjects of importance. Each volume consists of four numbers, published in January, April, July and October. Two numbers of about two hundred pages each are devoted to the scientific treatment of special subjects, and consist in part of papers read at the meetings of the Academy. The third number contains an important address or a short monograph, and the April number is the annual report of the Academy.

Volume I (1910 and 1911) consists of four numbers:

I. The Economic Position of Women
II. The Reform of the Currency
III. The Year Book of the Currency.
IV. The Reform of the Criminal Law and Procedure.

Separate copies of numbers 1, 2 and 4 may be obtained in paper covers at $1.50 each. "The Reform of the Currency" and "The Reform of the Criminal Law and Procedure" may also be had in cloth binding at $2.00 each.

The second number of the present volume will treat of Business and Public Welfare, containing a report of the annual meeting of the Academy, to be held in November, giving the papers in full and the discussions.

Communications in reference to the Proceedings should be addressed to the editor, **Henry Raymond Mussey,** Columbia University. Subscriptions should be forwarded and all business communications addressed to the Secretary of the **Academy of Political Science,** Columbia University. Members of the Academy receive the Proceedings without further payment.

(C) CI.B251178

2

PROCEEDINGS

OF THE

ACADEMY OF POLITICAL SCIENCE

IN THE CITY OF NEW YORK

292
872

Volume II] OCTOBER, 1911 [Number 1

CAPITAL AND LABOR UNIFIED

AN ESSAY ON THE APPLICATION OF THE INSTALMENT SYSTEM TO INVESTMENTS

BY

WILLIAM E HARMON

THE ACADEMY OF POLITICAL SCIENCE
COLUMBIA UNIVERSITY, NEW YORK
1911

Monograph.

HG4527
.H3

Copyright by
The Academy of Political Science

Jan. 25, 1912

CONTENTS

	PAGE
PREFACE	1
CHAPTER I—INVESTMENT AND INDUSTRIAL CONFLICT.	3
CHAPTER II—INVESTING POWER OF THE MASSES .	7
CHAPTER III—INFLUENCE OF SAVING ON CHARACTER .	12
CHAPTER IV—THE SALE OF CITY REAL ESTATE ON INSTALMENTS	15
CHAPTER V—SELLING FARMS ON INSTALMENTS . .	23
CHAPTER VI—AMERICAN MUTUAL INVESTMENT ASSOCIATION	36
CHAPTER VII—EVILS OF CORPORATION CONTROL. .	48

CAPITAL AND LABOR UNIFIED

MODERN methods of finance are not keeping pace with the requirements of civilization. The machinery of finance is behind the times. A large portion of available wealth is not used. Certain favored classes receive undue advantage over the general public. Distrust is engendered, antagonisms are created, capital and labor have grown suspicious of each other. The machinery of finance does not turn out a product for all who need its benefits, and whose coöperation would remove many of its problems.

The conventional plan of promotion is through underwritings to a limited public. This plan is simple, involves no educational process and deals with a known clientele under rules acceptable to it. Its deficiencies are, however, many and serious. A large percentage of the wealth of the nation is untouched. A class is created whose interests are alien to those of the general public. Financial opportunity is unequally distributed. The financial load is quite as uneven. In prosperous times a small number profit unduly, in financial stress the structure breaks from the insufficiency of its sustaining members and the overload they carry.

The antagonism between labor and capital exists because they have not a large enough common interest. It is obvious that if the capitalist had to raise his capital among his own workmen, the relations between the two would of necessity be harmonious, and their interests would be largely identical.

The writer has for twenty-five years had intimate experience with the man of small means, and for nearly the same period close relationship with men of large capital. It has been possible to see both sides of the situation, and to retain a sympathy with each class. It has been a great opportunity for study and experiment. Out of this experience has grown up a comprehensive system of finance, one that will utilize waste, conserve resources,

harmonize interests now arrayed against each other, solve social and economic problems, and strengthen the nation.

The following pages are given over to four considerations: first, a discussion of existing conditions; second, conclusions gained from a long business experience in small and large finance; third, the elaboration of a proved plan to meet the requirements of modern business; fourth, the application of the plan in equalizing opportunity, neutralizing antagonisms, and developing a sense of mutual responsibility and respect for the rights of property and persons.

New York, October 3, 1911.

CHAPTER I

Investment and Industrial Conflict

THE struggle between laborers and capitalists has been carried on unceasingly throughout modern times, and it bids fair to keep up indefinitely. It was never more bitter than now, and the problem that it presents never seemed farther from solution. In this contest untold millions of property have been destroyed and other untold millions of wealth have been wasted in the loss of the wage-earners' time. Any plan which will lessen the bitterness of the warfare and eliminate any part of the waste now going on will add greatly to the well-being of mankind.

Socialism suggests one way out of the difficulty and Christian individualism another, but both involve fundamental changes in human character and social organization. All that is being done under enlightened forms of government is to remove gradually the most conspicuous inequalities in opportunity through the limitation of special privileges, the control of natural resources and the curbing of monopolies, all three things being more or less inadequately accomplished through repressive legislation. The development of labor unions has served still further to equalize the chances in the battle for life. It is possible that the gradual attrition of the principles of unionism, socialism and individualism will in the end bring about a harmoniously working industrial machine, but this end is a long way off.

Great Britain is facing a crisis in her internal affairs involving disintegrating changes in her industrial, social and economic structure, changes which will during the period of adjustment injure every citizen of the United Kingdom. The class feeling so characteristic of the British nation is in a measure responsible for the gravity of the outlook; any national point of view that recognizes a differentiation in the social status of men in just so far encourages differentiation in their industrial status. The sequence of this is inequality in opportunity, alienation in

sympathy, and finally open industrial antagonism. The French nation, on the other hand, has no such point of view. Through the Revolution the industrial, and in some degree, the social character of the nation was changed. Conditions controlling the acquisition of property have been simplified, and its ownership has been distributed in small units. Employer and employe have developed, generally speaking, more or less harmonious relationships—certainly a far more unified purpose.

In the United States the problem is the same as in Great Britain. While class distinctions as known in the British dominions do not prevail with us, yet distinctions of another kind are just as clearly drawn, and an aristocracy of wealth is quite as effective as an aristocracy of birth or position in alienating from itself the respect and sympathy of other classes. Concentrated wealth is concentrated power. If it is used for private ends at public cost, its power to destroy the equilibrium between the rights of men and the rights of property, to disturb industrial progress and to foster class hatred is quite equal to the power of gunpowder in effecting the same results. The campaigns waged by adroitly generaled capital may not be so sanguinary, yet their toll of death and disaster sometimes equals that of the bloodiest conflict on the field of battle. War is costly, and all nations are bending their energies to making it impossible. Industrial war is equally destructive; for class antipathies produce national stagnation. To equalize opportunity is to prevent industrial war by harmonizing the material interests of different economic classes. It is the writer's hope, through the relation of his own business experience, to point out a plan of action through which the present conflict of capital and labor may be lessened without waste of effort, destruction of present institutions, or overthrow of vested rights.

Present conditions in our productive activities are in part the price we pay for our highly organized civilization. When business was conducted on a simple basis and the machinery of credit was not developed, when the telegraph and rapid mail service were unknown, the individual control of large resources was difficult, and their monopolistic use was well-nigh impossible. Contemporaneous with the growth of general education

came the era of invention, and with it the telegraph, the railroad, rapid inter-communication between distant points, and automatic centralization of capital. Capital began to move toward centers where the demand for it was greatest. A hundred years ago there were innumerable small centers from which merchants derived the small capital they required, and no one city controlled the financial destinies of a very large area. To-day London, Berlin, Paris and New York control the finances of the world. This evolution is pregnant with good as well as evil. Commerce supplies the wants of all the people; all enjoy a thousand and one luxuries which were unheard of a few years ago, and life is in many ways the better worth living; through the easy exchange of credits, the financial demands of the most distant land meet with prompt response from other parts of the world, and supply and demand work together smoothly. On the other hand, the concentration of money and the creation of great banking centers have made it possible for individuals or groups of individuals to acquire undue control over funds and thus manipulate them to personal ends.

Capital may be said to be natural organization, the union of men and women voluntary organization. Capital has the power of accretion through interest or earnings, and enjoys the benefits of increment through increased public use. A given capital fund has a tendency to add to itself and increase its efficiency; men and women, the tools of capital, are thus continuously losing ground, or are forced to make their demands effective in new ways. As capital has grown in potency, labor has organized into unions. As in Jules Verne's competition between guns and armor plate, first one, then the other holds the advantage. But the contest is fraught with destruction and waste, even as the invention of a new armor plate or a high-power gun sends millions to the scrap heap. Bitterness is the fruit of the contest for supremacy or for self-protection; the energy of mankind is wasted in unproductive effort; national life and human character show the scars of constant conflict; suspicion and hatred replace faith and coöperation. The two great forces when not in open warfare stand in a state of armed neutrality, and their productive power is paralyzed by the demands upon their vigilance.

The ultimate interests of capital and labor may be identical, but the immediate concerns of the two are antithetical. A permanent solution of the problem can come only through a plan which will identify the immediate, not the remote interests of the two parties. To take from the stronger and give to the weaker is to injure the latter not less than the former. The whole problem can be solved if the laborer can be made a capitalist and the capitalist the executive representative of the laborer. If you arbitrarily divide property or the evidences of property among the people, you pauperize them, but if you make it possible for the people to purchase and own property, giving the wage-earner exactly the same chance as the millionaire, his desire to get ahead, which is as fundamental in one grade of society as in the other, will ere long put him in possession of the very property which he is working to build up, and it will be as impossible for him to destroy it as to destroy his own horse or cow or home. It is the hope of the writer to outline a definite plan to accomplish this end.

This plan includes: (1) the gradual education of the common people in the value of the securities that represent a large part of the wealth of the nation; (2) the creation of a method for the easy purchase of securities by the smallest saver in the land, thus bringing about the gradual but ultimate absorption of stocks, bonds and other tokens of property by the workers; (3) the education of men of ability to the responsibilities of trusteeship; and (4) the creation of a dual relationship in every individual: first, that of laborer or producer, who has a vital interest in his wage or the price of his product; second, that of capitalist or security holder, who has an interest in his property and in the protection of its earning capacity. If this can be accomplished the problem will be largely solved. Socialism may exist, but it will be common ownership through purchase, not confiscation. Competition, the vital correlative to ambition, will exist, but the abuses of ambition will be greatly lessened. Many years' experience with both laborers and capitalists leads to a belief that the proposed plan is practical and is capable of immediate application and wide extension.

CHAPTER II

Investing Power of the Masses

IT would be difficult to approximate with any degree of accuracy the investment power of the productive classes in any nation.[1] A large portion of the total wealth of this nation is in the hands of men and women owning property valued at less than ten thousand dollars. If the bonds and stocks of our corporations could find among the producing classes a ready market at their real worth, the total capitalization could be absorbed without appreciable effort. In other words, if confidence in personal securities could be made universal, the power of wealth production might be multiplied many fold, and the development of the resources of the country, agricultural, mining and manufacturing, might go on with greatly increased rapidity. Millions—yes, billions—of surplus wealth now either hoarded or unwisely consumed might be put to productive use. It is not intended to suggest that confidence in all securities could be created or that confidence in securities as we know them to-day would be at all justifiable. The statement is meant simply to indicate that the potential capital resources of America are scarcely tapped under present methods of conducting business.

However large the amount of funds now unused, or invested in unproductive assets, they represent but a fractional part of the people's power to accumulate capital and thus increase the power of wealth production. The amount of cash or quickly available assets in the hands of the people represents but a small fraction of their purchasing power. The capacity to save is far beyond the actual saving accomplished. Stir up the impulse to acquire something, and make it possible to secure this

[1] By the term "productive classes" is meant that great body of people who earn their living by their work, and who receive little income from investments. This distinguishes them from the capitalistic classes, whose income is derived largely from investments.

something through saving, and you strike an absolutely inexhaustible mine. You are then capitalizing men's earning power; in other words, you are capitalizing men and women themselves. It is like an ever-flowing river fed by perpetual springs and snow-capped mountains. No one can estimate closely the expansive powers of a nation under such conditions; he can only point out intimations of what could be done by a nation whose people had been trained to utilize their earning capacity in supporting wealth-producing institutions and in creating new ones.

As an illustration of possibilities actually realized the example of France may be cited. The high ideals and scrupulous respect for business obligations prevailing among French banking and fiduciary institutions have fostered the saving power of the French people and developed their willingness to accept recommended investments, thus creating an unlimited mine of wealth among the common people. Witness the quickness with which the Prussian indemnity of a milliard of francs was paid. Our wealthiest railroads and industrial corporations find in French financial institutions an ever ready supply of money when properties and interest rates are satisfactory. France is a living illustration of the results which come from the creation of confidence between financial and productive classes. The French banks are strong only because of their strong appeal to the common people.

Frenchmen of the middle and lower classes are the most saving people of the white race. Almost all French merchants and manufacturers periodically apply their savings to the purchase of securities offered by the banks; the farmer's first duty, after harvesting and selling his crops, is to come to the nearest village and invest his earnings in some form of the scrip offered for sale by the agent of a Paris banking institution. The man in France who does not save and invest a little money is more or less of an outcast from his own class. The banks have met this situation, or perhaps have largely created it, by establishing little agencies in every small center throughout the provinces. An interesting illustration of the result has recently come to the attention of the writer. A large American trust company

succeeded in placing with a French banking concern an issue of bonds amounting to about $11,000,000 of one of our strongest railroads. When these bonds were delivered, the purchasing bank issued a scrip, about the size of our dollar bills, of the denomination of one hundred francs and multiples thereof. The nature of the security was printed in simple terms, on one side in French, and on the other in English. Six months later, while touring in France, the president of the trust company found to his astonishment that in every village where he stopped the scrip was on sale, or had been. He discovered that practically the whole issue had been absorbed through several hundred agencies of the Paris bank, and was in the hands of the French people.

What indications are there that a similar readiness to save and invest can be developed among Americans? Let us examine the existing forms of investment and their utilization. In two of them the average American has been thoroughly educated. The first is the savings-bank deposit, a temporary provision against a future need; the second is the buying of life insurance, the sacrifice of a part of current income for the protection of one's dependents. A third form of investment which has been quite thoroughly developed, owing to unusually favorable conditions surrounding it, is the purchase of real estate. As this is fully treated of elsewhere in this work, it is only referred to here. A fourth form of investment is the purchase of personal property on the instalment plan.

The ordinary reader has little comprehension either of the enormous growth of instalment houses engaged in selling clothing, furniture, books and jewelry, or of the almost universal use of this means of purchase by people of small means. It is an evolution, a growth which has sprung up under many disadvantages, but has gone on practically uninterrupted increasing in magnitude and importance. Many years ago the character of people engaged in the instalment business was not of the best and the articles disposed of were tawdry, cheaply constructed and high-priced; a change has come about through the underlying merit of the business itself. Better types of men are engaged in the business and better articles are being produced

and sold. Prices are coming more nearly to a level with cash prices and competition is giving the instalment buyer more nearly the worth of his money. In the beginning, only the cheapest goods were sold because only the cheapest people could be induced to buy. High prices were required because of great losses, or the supposed danger of great losses. Increased experience has shown the old ideas to be largely incorrect. The only thing which places instalment business on a different basis from cash business is the cost of collection and the loss of interest. Theft is a remote liability, and wear and tear of articles used is almost always made good before the dealer takes back his merchandise, in case he is obliged to do so. As the security and profits of the instalment business become better known, it is being taken up in many directions not contemplated before, and it is safe to predict that in a few years almost every article not too perishable will be bought by the best people on periodical payments, and at a price differing from the cash price only by the cost of collecting the instalments plus the necessary loss of interest. Cost of collections should not exceed three or four per cent, and loss of interest on the average payment period even less. While it is hard to get actual figures of the magnitude of the instalment business, the writer estimates that it averages several hundred millions per annum in the United States alone. Thousands of families make occasional purchases in this way and other thousands use the system constantly. The writer has known many heads of families who made it an invariable rule to put a part of their surplus to use in this manner; when necessities were provided for, they indulged in luxuries.

Still a fifth indication of investment possibilities is afforded by the writer's experience in the sale of real estate. We sell to buyers of moderate means an average of about five million dollars' worth of property a year, mostly on the easiest possible terms, utilizing to the full the buyer's willingness to save. While we offer such inducements as will attract cash whenever the buyer has it, not over five per cent of our business is done on a cash basis. This would indicate an unused investment possibility perhaps twenty times as great as that at present utilized. There

is reason to believe, however, that it is far greater than this; for real estate purchased for homes is bought chiefly by persons who are in a position to carry a heavier load than they assume in acquiring the land. Perhaps a better way to arrive at a fair estimate would be to determine what percentage of income is economically available for saving of some sort. Our experience indicates that our average purchaser, if he so desires, can apply ten to fifteen per cent of his income to other purposes than the necessary cost of living. So far as the impulse is stirred, so far can this amount be drawn upon.

The wage-earner deposits his money in the savings bank against future need and for the small income offered, as readily as he puts it aside for his winter clothing; he carries life insurance, for the protection of his family, quite as readily. For these two needs we have made provision, but none has been made for the gratification of a want that is equally urgent, namely, the wage-earner's desire to accumulate profitably for himself, to provide for his old age, to receive the benefit of the income and the increment in selling value of good securities which he sees making his capitalistic neighbor independent of hard work.

The lack of opportunities for the small investor in America is the result of our rapid growth in wealth. Those requiring capital go to places where it can most easily be secured, that is, the great financial centers. Heretofore it has not been necessary to cultivate the small investor by offering him secure and attractive investments, and nothing has yet come into existence that gives him such opportunities.

CHAPTER III

Influence of Saving on Character

"HOME ownership means good citizenship." This expression has a much wider significance than is usually given it. The small property owner is usually a man tempered and disciplined by self-sacrifice, so that he respects property, whether his own or his neighbor's. The ownership of any kind of property makes for conservatism. Prevent the acquisition of property, or destroy the property of individuals, and you create radicals; destroy hope and you destroy responsibility. Study the industrial life of different nations, and it will be found that in those where the purchase and transfer of property are made easiest, internal peace is most secure. Where hereditary privileges exist, or monopolistic methods are permitted, the spirit of unrest is in the ascendant and is increasing.

When one sets aside a part of his earnings for future use, he takes an important step in developing self-control. The complexities of modern life, coupled with the many opportunities for self-indulgence, make this step a difficult one. Few temptations are harder to overcome than that to spend one's money when he has it, and persons of modest incomes and heavy responsibilities deserve much credit for such an act. While it is not especially difficult to save from the surplus of one's income above the reasonable requirements of life, saving, where it means real sacrifice, becomes quite another thing; yet few acts have a more potent influence on character building than that of providing for the future. That the single act may grow into a habit of saving, the impulse with which the operation began must grow into dogged persistence. The emotional impulse, strong as it may have been, soon dies out, and sheer grit is called upon. It is this discipline that is inaugurated every time a wage-earner undertakes to carry out a contract involving specific periodical payments.

One of the most important factors in successful saving is the element of compulsion. This element is introduced by the creation of a contract which involves a serious sacrifice in case of violation; such a contract often provides just the stimulus necessary to overcome the temptation to yield to an immediate need or desire. In a contract involving a compulsory feature, the loss or forfeiture following violation may be sufficient only to compensate for the actual loss to the first party to the contract, or the provision may be of so drastic a nature as to place an unjust burden upon the second party. A middle course must be followed if the interests of all concerned are to be safeguarded, and the savings banks, the insurance companies and some of the instalment houses are gradually working out the problem upon a more or less scientific basis. Many persons are glad to place themselves in a position where some form of compulsion fortifies their own determination, and when equitably administered such compulsion effects an economic good. The grave feature of instalment sales is not the sacrifice which those must make who tire of their contracts, but the destruction of hopes following unsuccessful efforts at accumulation.

Most unfortunate of all is the case in which one has accumulated for years, paying the price which such saving entails, only to see his holdings swept out of existence by fraud or by the misfortune of inexperienced men to whom he has entrusted his savings. Such cases form a surprisingly large proportion of the total number of instances where accumulations of considerable size have been made. Any estimate of this proportion can be little more than a guess, but from the writer's observation he believes that not less than nine out of ten cases have failed to meet the most modest expectations of the investor. This is the reason why so many small wage-earners invest their money in real estate; there is a certain kind of security to the ownership of real property; the loss is rarely an absolute one, but the profits do not often equal the expectations of either seller or buyer. All losses in investment tend to produce extravagance and discontentment.

Few realize how much the American nation has changed in the past few years in respect to the indifference, or seeming

indifference, of the average man to his future. The benevolent instincts of the rich have grown, and the reliance of the poor on gratuities has kept pace. A small industrial life insurance is the most that many of our working people attempt to place between themselves and pauperism. The pity of it all is that those who have developed technical experience in directing investments do not realize the drift of this nation, and that the prosperous do not recognize the need of our people; it is not dole, but opportunity, that is wanted.

CHAPTER IV

The Sale of City Real Estate on Instalments

SOME space is given in this work to the consideration of two subjects which may seem alien to its general scope. One is a brief history of the writer's experience in the sale of real estate on instalments with the lessons gained from that experience; the other is an outline of a plan for the sale of farms on instalments. On the basis of principles derived from this experience, it is proposed to outline the plan of an organization for distributing securities among all the people.

Twenty-five years ago the purchase and sale of unimproved real estate on small instalments was unknown. The building and loan associations or coöperative banks were first organized for the purpose of enabling people of small means to combine their savings to buy homes. Two decades and a half ago these institutions had gained considerable standing, and in a limited way they did good service for the communities in which they were located. The limitations which they had to meet were natural with the class of men who controlled and guided their destinies. The purely coöperative spirit with which they were incorporated was perhaps theoretically sound, but in the hands of men inexperienced in finance the result was not always satisfactory. The coöperative method does not generally work well in new enterprises, or in the pioneering period of great undertakings. Obviously it will not work well if the men making up the personnel of the organization are not actuated by a high sense of obligation and controlled by high ideals. Wherever coöperative banks or building associations have been in the hands of the right type of men, trained in the practical details of the business with which they had to deal, the history of such institutions has been good. Most of the abuses have come from the entrance of men not actuated entirely by disinterested motives. These coöperative associations for the purchase of

homes have passed through various stages of popularity, probably occupying to-day a field of lesser relative magnitude than they did twenty-five years ago. Had they made a legitimate appeal to the self-interest of the best type of men, or shown possibilities of personal profits through efficiency and constant devotion to business, they might have had a greater development. It should also be said that the coöperative banks did not directly sell real estate on instalments; their province was to accumulate the combined savings of their members, and lend the amounts necessary to buy a home in the ordinary manner. As these loans were paid back in instalments, the coöperative banks and building and loan associations are justly entitled to the credit of being the first in this field.

Far greater has been the development of the instalment real-estate business established on a commercial basis. Twenty-five years ago the usual method of buying real estate was by the payment of a comparatively large part of the price, the passing of a deed and the execution of a mortgage for the unpaid balance. Under these conditions the purchase of a plot of ground upon a small payment and the execution of a deed involved the possible foreclosure of the mortgage with considerable loss to the mortgagor. The writer, believing that the purchase of a piece of ground could be made the basis for borrowing money and building a home, finally devised a form of instalment contract which he termed "a bond for a deed," and which is to-day practically the form used by all dealers in real estate on instalments. The idea was borrowed in its general form from an ingenious but somewhat unscrupulous scheme to sell unavailable land in a distant state, but the use of this contract in 1886 is believed to have been the first instance in which an instalment contract for the sale of real estate was used in a large way on property available for immediate improvement. The success of the initial undertaking quickly led to the general adoption of the method, and the movement has spread to practically every community in the country. Together with the development of electric transportation, it has changed the face of cities, opening the possibility of a home to every wage-earner. It is finally extending to higher types of property and is being taken advan-

tage of by men whose incomes range from five to ten thousand dollars per annum. Furthermore, it has lost all social stigma, and has taken its place among recognized economic institutions. A few years ago a business man hesitated to lend his endorsement to an instalment real-estate business; to-day some of the best men in the country are engaged in it. This growth in respectability has come largely from the efforts of a few men who saw in the business the germ of great social service. The type of people building homes in this way has improved as the educational process has gone on. Even the socially ambitious home-seeker is learning the meritoriousness of the opportunities that it affords.

As far as the purchase of homes is concerned the instalment business has been thoroughly organized and developed. For the past two years the writer has assisted in a suburban operation established on the highest ethical basis. Several million dollars are being devoted to the provision of homes under nearly ideal conditions and to the setting of standards in architecture, platting, street improvement and embellishment that can be followed by others engaged in this business. The work was originally instituted in the belief that the instalment business, applied to home construction, was far from ideal, and that in many ways radical results could be accomplished by an undertaking of this kind. While not sharing entirely the belief of some of the public-spirited men engaged in the work, the writer did believe that where money making was not the exclusive purpose of a real-estate operation, things could be accomplished far beyond the actual results attained in ordinary practise. Two years' observation of this great social work have led to the conviction that while much can be done, the results will by no means be revolutionary, but will come largely from the adoption of prevailing real-estate methods, enriched by the coöperation of the ablest men in the country in their respective lines. This work has the benefit of the best talent in architecture, landscape gardening, topographical arrangement and business organization, and it will afford a conspicuous demonstration of the effectiveness of highly skilled service and perfect organization. Yet these results are possible largely because of

the advances already made in home production under competitive conditions.

In the past few years corporations have been formed for the purchase of improved city real estate of the best type, and the sale on instalments of the securities therefor. This is another step in the extension of the instalment business and in the enlargement of the field of investment where rich and poor have equal opportunities.

The purchase of suburban or residential real estate by those who are solicitous to own their own homes is always desirable, although, as an investment, suburban real estate is not always attractive. One general principle of real-estate values may be laid down: Any real estate which can be duplicated at pleasure will receive the benefit of a minimum income and increment. This rule may be applied not only to suburban real estate, but to other forms, such as office buildings, lofts and apartment houses. The element of monopoly is essential to the best results in real-estate income, and while strategic ground locations such as corners or inside lots in attractive retail sections possess some monopoly characteristics, residential locations have less, and the air above the ground floor has none whatever. Of course exceptional circumstances may make any type of property worth purchasing, such as specially low price, extraordinary improvements in the vicinity of the property, or the absorption of poor suburban villages by a city from which rich revenues can be drawn for schools, streets, water supplies and other improvements. Generally speaking, however, one is not justified in buying suburban real estate without the ultimate purpose of building a home or creating a compulsory saving fund. On the other hand, real estate used for business purposes, and especially for retail business, if bought properly is usually a good investment, particularly so when it earns an income, is not too heavily burdened with buildings and is in a growing city. Another rule to be kept in mind by those contemplating investment in real estate is to buy as large a proportion of land and as small a proportion of brick and mortar as is consistent with a fair income; for buildings invariably depreciate in value, while land almost always appreciates. Therefore the decrease

in the value of the building must not be sufficient to offset the increase in the value of the land; otherwise the increment is destroyed.

The business of purchasing city property for the benefit of small investors is one that is rapidly growing and that has at present some of the disadvantages of its youth. The general merits of the scheme and the willingness of people to invest are attracting a good many persons of low business standards. An important point to be kept in mind at all times is the personnel of the directorate of the promoting organization, with reference not only to business standing, but more particularly to experience in the real-estate business. No better recommendation can be given a concern than that it has been successful in the past on its own account and on the account of those who have entrusted their funds to its care. Good men often lend their names to enterprises whose weakness they have not the necessary training to discover; they themselves, no less than those led by them, are the dupes of designing schemers.

It may be well here to touch upon another weakness in this new and growing business, a weakness which is not yet developed and which comes largely from the limited experience of those engaged in the business. Real estate is not a quick asset; demand for it depends upon certain conditions, and any necessity which enforces a sale prior to the actual demand always results in a sacrifice of greater or less magnitude. Movements in real-estate price levels are in waves of comparatively long duration, as distinguished from the short and sharp fluctuations of the stock market. Therefore, one of the essential elements in successful trading in real property is the ability to hold it until demand comes. Many of the real-estate securities now offered to the public are in the form of short-term bonds of about ten years' duration. Those who have had wide experience in real-estate operations would hesitate to accept funds to invest in city property where the obligation to repay the principal matured in so short a period. In suburban developments where the property is purchased for immediate improvement it is possible to put an undertaking through successfully in this short time, but in city property such a policy would be danger-

ous. In case it were not possible to sell the property within this limited period, the only way to meet the bonds upon maturity would be by an issue of similar new bonds. This develops into a sort of continuous performance that is very expensive, and liable to mishap in case of loss of confidence at any stage of the process. The only safe way to offer securities representing interests in high-class improved property is through the issue either of long-term bonds or of stock. Stock is a permanent investment of capital. It is not subject to withdrawal. It gets all the benefits that come from the increment and earnings of the property, and has all the security of bonds which are bonds in name only, inasmuch as they represent equities subject to underlying mortgages. The obvious disadvantages of stock issues come from the fact that the investor cannot in good faith be promised the return of his capital, except in so far as a general market is created for the securities of the company by its growth in reputation and by the strength of its purchases. The history of companies engaged in this class of business has thus far been too short to create a general market for their securities, even where they have been markedly successful, but they can afford to wait the gradual growth of genuine public confidence. The above criticisms are not intended as captious objections to the methods so frequently adopted in this department of the real-estate business. Such securities, it is believed, are usually offered in good faith; the fault is that of optimism and inexperience.

To recur to personal experience, some six years ago the writer organized a series of companies for the investment of instalment money in high-class retail business property. This corporation was organized upon the following basis: The net receipts from the sale of stock were to be invested in the best type of property available in New York and other cities without any charge against the company on behalf of the management, other than for clerical services and the services of other necessary employees. The first 5 % of the net earnings of the company were to go to the investor, and all excess profits were to be divided equally between the investor and the promoting organization. Preferred stock was issued to the in-

vestor defining the conditions of his ownership. The interest of the promoters in the companies was represented by common stock entitled to one-half of the earnings over 5 % per annum. The 5 % dividends were to be cumulative, and if not paid in any year were to be the first charge on the subsequent earnings of the company until the full 5 % per annum had been paid.

These companies were organized under the laws of the state of New York and were entitled First, Second, and Third United Cities Realty Corporations. Altogether about three million dollars worth of the preferred stock was sold. Owing to the newness of the plan, the cost of selling was necessarily high, and this charge affected the earnings, as such selling cost had to be met out of the money received in payment for the stock. Even with this handicap, none of the companies has paid less than 5 % regularly. The Second United Cities Realty Corporation for several years paid from earnings 5½ % to the investors and an amount equal to ½ % to the promoters, while the first corporation is now paying 6½ % to the stockholders and 1½ % to the promoters. Each company has accumulated a considerable surplus, and in addition enjoys substantial increases in property values, which increases will ultimately go to the benefit of both preferred and common stock. As yet there is not much market for the stock, the companies being practically unknown to the large investing public. Recognizing the evils which so often arise in efforts to manipulate stock and create a market for it, the promoters have made no effort whatever to establish a general market. This has worked some hardship upon those who have been obliged to sell their stock, as it has not given them the advantage to which they were legitimately entitled by virtue of the intrinsic value of their properties; but in the long run such a policy will be better for all concerned.

In the spring of 1908 the sale of stock on instalments was temporarily stopped, not because it was harder or more expensive to sell stock, but because it was extremely difficult to find good investments. The real-estate market the country over had enjoyed a considerable rise, and the immediate future did not look bright as to the ability of tenants to pay rent. As real estate is the last kind of property to feel the effects of prosperity

or adversity, experience led to the conclusion that a few years of stationary if not declining rents were to be expected, so that earnings might for a time be less. Of course, this condition will gradually pass away.

The main purpose in outlining the history of these corporations at length is to indicate the lines on which such real-estate companies should be formed. Apparently we are at the beginning of a tremendous extension of investments in high-priced improved real estate. The business is stable and dependable, and it will give the small investor opportunity on equal terms with the capitalist. The present disadvantages under which it labors, namely, a limited demand in the large markets for its securities, and the temptation to offer doubtful ones, will gradually disappear. The pioneer work has been done, and the next twenty-five years will probably see as extensive growth in this line of business as the past twenty-five have witnessed in suburban development. In fact, the instalment method has taken possession of real estate. It can be applied equally well to personal securities, though its application there will be somewhat more difficult.

CHAPTER V

Selling Farms on Instalments

THE instalment business has as yet never been extended to the sale of farms. In all likelihood the reason for this is that few men familiar with farming know much about the business problems involved, notably the function that advertising plays in modern business, the difference between legitimate wholesale and retail values of land,—*i. e.*, the difference between the price at which a large farm can be bought on conditions favoring the buyer, and the price at which it can be sold in small farms on liberal terms—the methods of constructing an organization for selling and the knowledge of finance necessary to carry on the business in a large way, all of which are prerequisites to success. Yet the purchase and sale of farms on instalments should be comparatively simple, and as a business it contains so many attractive features that it will grow automatically once its practicability is demonstrated. It should be profitable both for the developer and for the buyer. As in many other lines of business, no one has the courage to take any serious initiative risks, but the enterprise once established, many can improve its methods and increase its efficiency.

This system of real-estate distribution will do much toward solving some of the problems of our agricultural life. The disadvantages of country living affect all agricultural classes, but on the farm laborer they fall heaviest. Under present conditions, be he either ignorant or intelligent, he is almost of necessity tied to a life of tenancy. His wages are low measured in cash, although he receives additions in fuel, food and services sufficient to make his gross earnings fairly equal to those of the city worker. But his cash wages measured in dollars are so small, the opportunities for deposits corresponding to those in savings banks are so inadequate in the country, and the laborer's general training along economic lines is so meager, that few of the farm laborers of the country actually save much money.

The ordinary methods applied to the purchase and sale of real estate in country districts still further discourage the saving habit. The sale of a farm almost invariably involves large initial payments, for the uniform practice is to give a deed and take back a mortgage. The seller must face the possibility of injury to his property through misuse and neglect and the expense of foreclosure; therefore in self-protection he demands a cash payment to offset such loss or risk. The conditions surrounding the vending of farm lands are exactly the same as those in suburban real estate twenty-five years ago, and the need for a radical change of method is quite as great. Prevailing conditions destroy the farm laborer's hope of being able ever to own a place of his own. If he is ambitious, he is inclined to seek other fields of employment which hold out attractive promises, or to go west where cheaper lands offer him a better chance, and where the instalment method is used to some extent. The more ignorant type of laborer eventually loses his ambition, and becomes careless or inefficient. While this is true of the single man, the situation of the married farm hand is even worse. The expense of clothing and medical attention keeps him constantly near a state of penury. As a tenant, his wife and children are a burden to him, whereas as a farm owner both might be, and in all likelihood would be, utilized in increasing his earning capacity. Under existing conditions governing the purchase and sale of agricultural lands, the average farm laborer is almost predestined to the life of a tenant. We are actually witnessing a development in farm ownership over many parts of the United States which is quite as great a menace to our national health as the situation in regard to personal property, namely, a condition of absentee landlordism and tenant population.

In some parts of the country comparatively few of the farm owners occupy their lands, but live in villages and towns and lease their property. If it is made easy for an intelligent hard-working farm hand to buy his own farm, the question of utilizing waste and under-tilled land will at once be solved, the drift of farm hands to the cities will be stopped and in a certain degree the cost of living will be cheapened by the equalization of population between city and country.

Taking up a study of the instalment business as applied to farms, we meet at the outset one fundamental difference between this business and the sale of homes or securities on instalments. The buyer of a home or of personal securities earns his living at his trade or business, and applies only his surplus to his purchase. The instalment buyer of a farm earns both his living and his surplus out of the farm itself and he is, therefore, dependent on the land, combined with his own energy, to make his instalment payments and support his family, the family of course having the first claim upon him. If poor land is sold to him, if too high a price or too large a rate of interest is charged, or if the crop is a failure, he has no surplus with which to meet his payments. On the other hand, the city man's investment may fail to meet his expectations without affecting his earning capacity in other directions; therefore, the relationship of the seller to the buyer of a farm on instalments is quite different from the one established with the city buyer of real estate. The necessity of justice to the man who buys the farm makes somewhat more complex the problem of enforcing that adjustment between the rights of the two parties which should be the basis of all business transactions.

In the development of the instalment business, the protection of the seller is the primary consideration; for if he is not protected the whole scheme falls to the ground. It is absolutely necessary to make a business safe as well as profitable in order to get men to undertake it. The general theory of the writer is, that the problem of labor and capital can be solved without any material change in established methods of business, by a continuance of the appeal to the self-interest of men, without any effort to introduce a spirit of philanthropy or charity into the appeal. Therefore, in the working out of the scheme, protection will be given primarily to the seller of the property, and any rights or privileges given the buyer must not infringe upon this fundamental protection.

In the sale of farms on instalments it is necessary in those cases where the buyer, because of neglect or crop failure, does not meet his payment, to guard against the waste which usually comes from the occupancy of property without the payment of

rent. In the sale of personal securities or city real estate, payments are made in cash only. In the sale of farm lands, payments should be made in two ways,—in cash and in labor, the cash to be used to liquidate the obligation which the buyer undertakes, the labor to be utilized to increase the value of the property. This increase due to labor ultimately accrues to the benefit of the buyer, if he is successful, but in cases of misfortune it may be used to carry the worthy buyer over a temporary period of inability to perform his contract and in cases of forfeiture may be utilized for the benefit of the seller.

If a man without capital dependent solely on his own efforts is to buy a farm, the size of his purchase must necessarily be confined to the limit of one man's earning capacity. The unit of property to be sold should be not so much a matter of acres as a matter of dollars. After consultation with many practical farmers in the eastern, middle and southern states the writer estimates the maximum cash earning capacity of one man equipped with a reasonable supply of tools to be $250 a year over and above his expenses. Two hundred and fifty dollars, then, must represent the maximum amount a man is to be obligated to pay to cover both principal and interest. If the rate of interest were five per cent and the period of payment of the principal down to a permanent 40 per cent mortgage were about ten years, $2500 worth of property would be all that one man could undertake to purchase. This $2500 worth of property might consist of ten acres or a hundred, taking for granted, of course, that the land was worth the price; for, generally speaking, a given sum of money can be made as easily from ten acres worth $100 per acre as from 100 acres worth $10, the value of agricultural land being based upon its economic rent or earning capacity. So the area of land sold is really of comparatively small importance so long as full value is given.

There are other elements, however, which must be considered in a farm, elements whose lack would make both the $100 and the $10 land unavailable. All farms used for general farming should, whenever possible, contain varied grades or kinds of land. There are certain factors more or less essential to the farmer's success. In the order of their importance they are as

follows: first, a sufficient area of tillable land to employ the farmer's energies and produce the main part of his revenue; second, running water; third, sufficient woodland to supply fuel and the lumber used on the farm; fourth, grazing or unimproved lands to be brought under cultivation during inactive periods of the year. In the subdivision of farms every farmer who buys on instalments ought to be given these four things. The American custom is to buy enough ground to give the man wood, water, upland and bottom, and in this country it frequently takes from a hundred to two hundred acres thus to make up a representative farm. The French custom is better than ours and the same result is accomplished. The farmer is given all of the elements requisite to his comfort by the simple method of subdividing differently. In this country, where land has been so cheap and so abundant, a man feels that his farm must be one solid and contiguous body; in France no such thought is entertained. The little farmer owns his tillable ground and his wood lot two or three miles apart, and his grazing or meadow land probably as many miles from either. The French farmer lives in the nearby village, and goes out to his land in the morning, returning in the evening. We, however, are not obliged to resort to such extreme measures as this.

Assuming we own an improved farm of 200 acres, and assuming that the farm hand is capable of buying 40 acres, we sub-divide the 200 acres in such a way as to give each one of the five buyers all of the requirements necessary to his comfort, and furthermore by a series of roads or rights of way to give him direct access to all of his property. Therefore he is in almost the same position as if he owned the entire 200 acres, for he can go from one part of his property to another just as easily as the original farmer could go from one part of his big farm to another part. The houses should be placed fairly close together near the center of the sub-division. This can almost always be done, and it gives the farmer's family the advantage of having near neighbors, and furnishes opportunities for coöperation. The houses however should be far enough apart to permit the women to raise poultry without interference. The plan gives ample garden space, and yet the houses

are near enough together to make visiting easy, enriching the social life and giving many advantages. It permits the common ownership of certain farming necessities which would otherwise be out of the reach of the small buyer. It is possible to have a common workshop and mill where lumber can be sawed, winter wood cut, corn ground into meal, and the thousand and one other things done which are possible with the modern gasolene motor of small horsepower. The motor can also be attached to a well, pumping water to the various houses. The common interest of the members in their small communities will develop in many other ways. In fact, the condition of the buyer on instalments in these little communities will be better than that of the ordinary farmer, and this is the end for which we are striving. If we can create communal life while we are making it easy for a man to buy his home, we are adding one more element of strength to our scheme.

The development of the suburban business necessitates the wholesale purchase of large bodies of land, as compared to the individual parcel bought for a home—that is to say, the combination of many units is required to make a suburban village successful. It is not necessary to purchase as large a number of parcels or units for sub-division in the sale of farms on instalments. To illustrate: In a successful suburban real-estate development, one must purchase not less than two hundred to one thousand lots or plots in order to insure a homogeneous development. In suburban property it is important to protect the community with certain restrictions. It is further necessary to provide certain public-service utilities, such as water, electric light and sewers. These things can be done economically only in a wholesale way, and where the number of persons benefited is large enough to warrant the outlay. In the sub-division of farm lands no such methods are required. The minimum size of a body of farm land to be sub-divided should be such as to make it available for perhaps not less than five units or small farms, but the size of the tract to be sub-divided is a factor of subordinate importance to others. A prerequisite to success in either farm or suburban development is the exercise of care in the selection and purchase of the land. Not every farm will

lend itself to sub-division, and many farms are held too high to make sub-division practicable. It is necessary also to take advantage of a favorable market. The saying, "That which is well bought is half sold," has no more fitting application than in this business; yet no more intelligence is required in the purchase of farms than in the purchase of suburban properties, though somewhat different training is obviously necessary. The same intelligence should be used which would be exercised by a shrewd and careful farmer who had the whole country to select from; for it is not necessary to go to a good market for selling farms, but where farms can be purchased at the lowest price, value considered. There will always be buyers of farms on instalments if prices and terms are right.

Assume that a piece of property, containing 200 acres or five farms, has been bought for $6,000. If this farm has been well bought, it should lend itself to sub-division and should sell at retail on easy terms for about $10,000, or the five farms at an average of $2,000 each. The price is not unreasonable and is not beyond the purchasing power of the small buyer. Through his individual work the property should be worth in the end in cash all he has paid for it, perhaps more, having afforded him a living in the meantime. These five farms should contain about the following allotments of land of various grades: 10 acres of first grade land, 10 of second and 20 of third. Assume that the man who wishes to buy has not over $50 in cash, with the absolutely necessary equipment such as a horse and suitable farming tools to work his farm the first year. As his willingness to work is to be utilized no less than his cash, it is necessary to place upon him the responsibility of doing all the work on the farm necessary to its improvement which he can do, and to sell the farm to him in as crude a condition as possible. In this way he increases the value of his own possession if he finally succeeds in paying for it, and increases the value of the security in case he fails. The man makes a contract to give two things: first, $200 per annum, $100 of which is applied the first year to the principal of the debt, and $100 to the interest, the payment on principal gradually increasing as the interest payment decreases, liquidating the entire debt in fourteen to

fifteen years;[1] second, 75 days' work each year to be applied under direction of the seller on the farm itself, outside the work of making and harvesting the crops. This work can be given at odd times during the year, and mostly in the winter months when the farmer is ordinarily idle, or if industrious, actually engaged in the same tasks which are here enforced by contract.

There should be already constructed a two-room house, simple but substantial, to which additions are to be made according to contract. Suitable but minimum shelter for stock and wire for fencing should also be provided. Each year the 75 days' work should be given to the following tasks, which are stated in the order of their importance: the fencing of the property; the enlargement of the house; the extension of the stable; the construction of outbuildings; the clearing of land; the planting of fruit trees; and the development of the fertility of the soil. All these things go toward making the property worth more money in cash to the buyer in case he succeeds in his undertaking, and to the seller in case he fails. In this way the farmer's work is constructive. He cannot complain of the requirements of the contract, because he is required to do only those things which he should do for himself, and which he would do in any case were he ambitious to make as much of his farm as possible. His point of view is no longer that of a tenant whose purposes are best served by getting everything possible out of the land during his short period of occupancy, but of the owner who can see the benefits of his industry accruing to himself. Obviously, his wife is capable of adding to the family earnings by raising poultry, growing small fruits, making butter and carrying on other similar activities, and it is an advantage to the seller to make it possible for her to get a start in this direction. Cash payments can be made at the banks after crops are harvested.

The administration of a business of this kind is very simple indeed. One low-priced superintendent can supervise the contract requirements of a large number of farms. It is not neces-

[1] Presumably it would be unnecessary to pay the entire principal, as there should be no difficulty in negotiating a permanent mortgage of 40%, 50% or even 60% of the purchase price, which would materially shorten the instalment period.

sary to have the close supervision which is required in renting farms on shares or crop rents and seeing to the honest fulfilment of the conditions of tenancy. All that is required is to see that the work laid out for the year has been done at the end of the year, forfeiture, if necessary, being the price of neglect. In case of crop failure either in whole or in part the security is ample, and the contract can be extended without danger of loss, for a valuable service must be performed each year according to contract. In case a purchaser must be dispossessed, the property is in constantly better shape to be sold to a new buyer. Naturally success in selling farms on instalments depends upon giving the instalment buyer a better opportunity than he has at present. A legitimate profit may be made in the difference between the wholesale price at which property can be bought and the retail price at which it can be sold under easy conditions of sale, and at the same time opportunities of great value may be given to the poor farming tenant or laborer.

THEORETICAL SUB-DIVISION FOR PURPOSE OF SHOWING FINANCIAL OUTCOME

Diagram No. 1

This farm containing 200 acres can be purchased for $6,000, or $30 per acre, on the following terms: 40% cash, $2400; balance, $3600, on a long term mortgage at 5% interest, with a release clause providing for the release of any one of the sub-divisions upon the payment of a proportionate part of the mortgage indebtedness. We divide the property, as shown on diagram, into five sub-divisions of 40 acres, each designated as sub-farms A, B, C, D and E. These sub-farms happen to be of equal area, but the area might be of unequal size, also the selling price, without militating against the plan—in fact, in some respects simplifying it by giving a diversity of choice.

At points numbered 1, 2, 3, 4 and 5, as shown on diagram, two-story houses of two rooms each are constructed. This type of building permits the addition of one or two-story extensions, and is the most practical beginning for a larger dwelling. Five wells and five sheds or outbuildings are also constructed, and wire or lumber is furnished to each purchaser. The writer estimates that the five houses would cost $1500; five sheds or outbuildings $625; wire or lumber for fencing the five farms $375; total $2500. These expenditures added to the cash payment of $2400 on the land make a total investment of $4900.

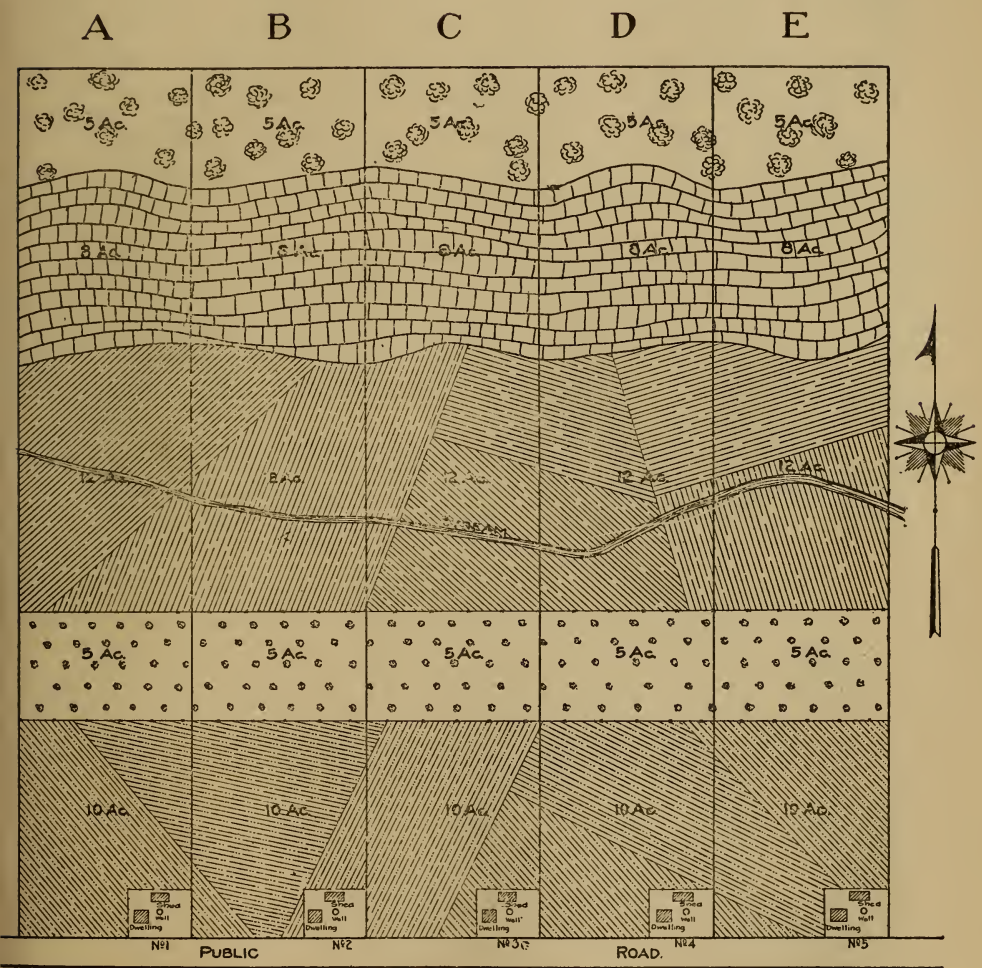
Five contracts of sale are entered into in the autumn, each involving the sum of $2500, which includes 40 acres of land at $50 per acre, and the actual cash invested in the improvements of each farm, *viz.*, $500, the entire amount bearing interest at the rate of 5% computed annually. The contracts provide: first, that the buyer pay annually $50 in cash; second, that he give each year under the direction of a superintendent seventy-five days' labor to the improvement of the farm outside of the regular work of operating it. This work will vary each year, and to a certain extent vary on each individual farm, owing to the conditions which must be met, but it is all in the direction of putting permanent improvements on the property, that will increase its value to the buyer, and also increase the measure of protection to the seller. The contract further provides that the buyer shall pay an amount equal to 10% of the purchase price each year, which will be applicable to the payment of interest, and the liquidation of principal. (Necessarily, provision should be made for privilege of pre-paying in case of unexpected prosperity, and in case of crop failure payments can be safely extended, by virtue of the work done in improving the farm.) At the end of ten years the indebtedness is reduced to about $1000, or 40% of the purchase price. The seller could now safely convey the property and take a mortgage for the balance. This mortgage could be disposed of to any lending institution.

Following is a statement showing the probable profit:

Debit		*Credit*	
Cost of farm	$6,000	Selling price of five sub-farms at $2,500 each	$12,500
Improvements	2,500	Interest on above for average of five years at 5%	3,125
Total investment	$8,500		
Interest on above for average of 4 years at 5%	1,700		
Ten per cent of total selling price for expenses	1,250		
Profit	4,175		
	$15,625		$15,625

DIAGRAM №1

KEY
Bottom Land Shown
Woodland
Rocky Hillside
Cleared Upland
Orchard
Scale
0 30 100 200 400 600
Feet


A
B
C
D
E
5 Ac.
8 Ac.
12 Ac.
10 Ac.
Shed
Well
Dwelling
№1
№2
№3
№4
№5
Public
Road.

THEORETICAL SUB-DIVISION OF A FARM IN VIRGINIA FOR PURPOSE OF SHOWING PRACTICAL APPLICATION OF PLAN.

Diagram No. 2

A farm of 200 acres in Culpepper County, Virginia, is shown. A sub-division has been made to meet the actual conditions to be found on this particular farm. The sub-farms vary in area, character and price, and give some choice of selection to meet the especial requirements of farmers desiring to take up different kinds of farming. The public road runs through the northerly portion of the farm. In addition a lane 30 feet in width is open east and west just south of the center, giving access to the public road through a 20-foot lane between sub-farms X & Y, and also giving common access to a stream of water, crossing the lane on the easterly side of Y. At this point a public or community workshop could be constructed. Although the river bounds the whole property on the south, it has no especial value, as the banks are high and steep.

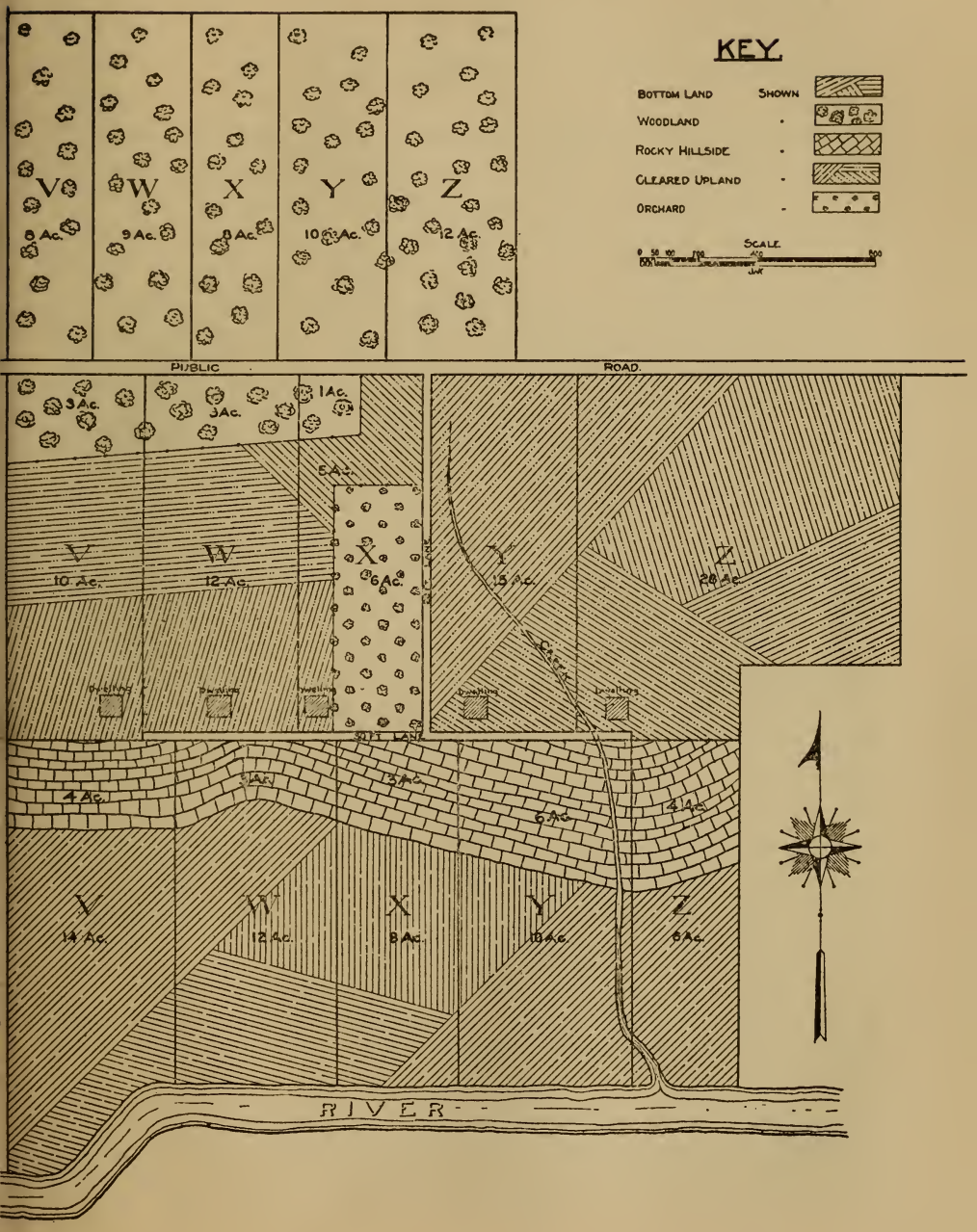
The advantages of sub-divided ownership in this particular 200 acres of land are quite apparent. Each farmer owns all the factors which go to make up a self-sustaining farm, and each sub-farm contains about all the land one man can cultivate without hiring help. This farm has no greater possibilities for sub-division than hundreds of farms in almost every county in our agricultual states.

The following tabulation shows the proportions of land of various kinds which go to make up these 5 typical sub-farms, also the price at which each grade of land is sold:

Bottom	50 acres	at $100	per acre	= $5,000
Woodland	54 "	" 20	" "	= 1,080
Rocky hillside	20 "	" 15	" "	= 300
Cleared upland	70 "	" 40	" "	= 2,800
Orchard	6 "	" 125	" "	= 750
Total	200 acres		Selling price	= $9,930

	Farm V		*Farm W*		*Farm X*		*Farm Y*		*Farm Z*	
Bottom	14a	$1,400	12a	$1,200	8a	$800	10a	$1,000	6a	$600
Cleared Upland	10a	400	12a	480	5a	200	15a	600	28a	1,120
Rocky Hillside	4a	60	3a	45	3a	45	6a	90	4a	60
Woodland	11a	220	12a	240	9a	180	10a	200	12a	240
Orchard					6a	750				
Total Acreage	39a		39a		31a		41a		50a	
Selling price		$2,080		$1,965		$1,975		$1,890		$2,020

DIAGRAM Nº2.


V
8 Ac.
W
9 Ac.
X
8 Ac.
Y
10 Ac.
Z
12 Ac.
KEY.
Bottom Land Shown
Woodland
Rocky Hillside
Cleared Upland
Orchard
Scale.
PUBLIC ROAD.
3 Ac.
3 Ac.
1 Ac.
5 Ac.
V
10 Ac.
W
12 Ac.
X
6 Ac.
Y
15 Ac.
Z
28 Ac.
Dwelling
Dwelling
Dwelling
Dwelling
Creek
Split Lane
4 Ac.
5 Ac.
5 Ac.
6 Ac.
4 Ac.
V
14 Ac.
W
12 Ac.
X
8 Ac.
Y
10 Ac.
Z
8 Ac.
RIVER

CHAPTER VI

AMERICAN MUTUAL INVESTMENT ASSOCIATION

WE turn now to the specific subject which has given rise to this work. Thus far we have attempted to show the limitation of the opportunity for investment open to the average man, the need of larger funds for national development, the capacity of the wage-earner to save, the influence of saving on character and the manner in which this saving instinct has already been gratified in real estate. We shall now attempt to outline a practical organization of national scope devoted to equalizing investment opportunity for all classes, showing the main characteristics of such an organization and the methods through which it may be established on a sound financial basis.

A mutual association should be formed to buy different classes of personal securities, such as stocks, bonds, notes and other forms of liens or equities, and to sell for cash or on instalments either such personal securities or shares representing fractional interests in groups or blocks of them. This organization should be incorporated under the laws of such states as offer advantages for an undertaking of this kind. Preferably the association should be non-profit-making, either distributing any net earnings from time to time among the certificate holders or applying its available surplus to decrease the cost of conducting the business. The board of trustees should be made up of representative men in various departments of activity, the majority obviously financiers; for they are constantly in touch with the great investment opportunities, and financial skill and training would of course be indispensable. Other classes also should be represented; the board should contain social workers, leaders of the laboring classes and of labor organizations, professors of political economy in educational institutions and representatives of the agricultural population. The association should aim to train the common people in a just comprehension of the principles

of business, the character of securities, the methods employed in the management of great corporations and the legal and moral rights of the parties therewith connected. It should likewise teach those engaged in corporation management the value of a diversified ownership of their securities and the importance in these modern days of completeness of reports. It should teach small savers the opportunities for legitimate and conservative investment, the nature of corporate life and the methods of corporate management. It would thus develop a more discriminating regard for the rights of property, no matter what the form of ownership may be.

The primary function of the American Mutual Investment Association (which name we will temporarily adopt for want of a better one) is, however, the purchase from time to time of the best investment securities of different classes that are offered to the public, and the distribution of these securities on terms economical for the buyer and in units that will put them within the reach of the smallest saver. It would be well to extend the opportunity for investment to different kinds of securities, ranging from the more conservative bonds and stocks yielding 4½ % to securities of a more speculative character, protecting the buyer in every instance by calling his attention to the exact nature of the security he is undertaking to purchase, so that no one may be tempted to undertake an investment of a particular class in the expectation of getting a greater income than the security warrants or greater security than the income promised warrants. This can be best accomplished by a method of classification which will clearly show the nature of the investment. To illustrate, types of investment securities dealt in might be divided into the following classes: first, the conservative group, embracing bonds, stocks and trust shares yielding 4 % to 5 %; second, semi-conservative, 5 % to 6 %; third, semi-speculative, yielding 6 % and upward. It should be made possible for a man to invest in a specific stock or bond; but probably the largest business done would be in the sale of certificates of interest in blocks of securities. The business of the corporation should be conducted with the same energy as that of a savings bank or life-insurance company, putting back of it the construc-

tive abilities of the best talent available, with ample pay for services rendered; for it is impossible to make a success of any organization of this kind where self-interest does not play an important part. The only restriction is, that the promoters or trustees should have no interest in the profits, and their relations to the concern should be like those of life-insurance or savings-bank trustees.

It would be advisable to organize a selling department or corps of agents similar to those of a life-insurance company and equally efficient. It would be important to advertise aggressively and in the best periodicals of the country; in fact, to build up a selling or distributing department able to compete with the best in the quest for business.

The terms upon which securities were sold should be of the simplest nature. A contract might be sold involving the investment of a thousand dollars upon an initial payment of not over ten dollars and monthly payments covering a period of from five to ten years. Obviously it would be impossible to deliver a block of stocks or bonds of the aggregate amount purchased upon the initial payment, but in cases where a man desired to invest in a particular stock or a particular bond the fund should be carried on deposit at a given rate of interest until the instalments and interest equaled the amount necessary actually to purchase the securities, when this could be done and the unpaid balance liquidated by the contract payments. For example, when 25 per cent of the purchase price was paid in, the association could purchase the particular securities in the open market, if it had not already acquired them.

By far the largest amount of business to be done, however, would be in the sale of fractional interests in blocks of securities rather than in the sale of specific securities. To illustrate, assuming the selling capacity of the association in the year 1912 to be $50,000,000 of group 2 (semi-conservative contracts), at the end of the year 1912 these contracts would all be combined under the head of "consolidated syndicate of 1912 group 2 semi-conservative." This $50,000,000 would be received, we will say, at the rate of something under ten millions per year, and as received would be invested in securities yielding 5 % to 6 %,

which the trustees considered promising semi-conservative investments. At the end of five years the entire $50,000,000, less forfeitures and surrenders, would be paid in and invested in securities of different sorts. Shares of a par value of one hundred dollars each to represent the fractional interest of holders could be delivered at this time, or earlier if desirable. The shares or units would naturally have a market value corresponding to the average value of the securities in the block or pool and would soon find their level on the exchanges. If listed securities or those having a high standing in the market only were purchased, these shares would soon have as broad a market as the securities themselves, and probably a much more stable one, on account of their broad distribution and consequent freedom from speculative influence. The stocks and bonds bought should be held by the association as trustee, or by an institution selected for the purpose, under such a declaration of trust as was necessary to protect the interests of the beneficiaries and to give the trustee proper freedom of action. The rights of the syndicate should be safeguarded, and at the same time action should be permitted under foreclosure, liquidation sale, or reorganization of the issuing corporation. In such a syndicate the poor man would enjoy all the benefits of the investment, precisely as the rich man does to-day, and would be protected equally with the rich man. The intelligence given to the selection of his investments would be far greater than that now available to the average man, even of large means, and in many instances the investor would get his security at a lower price than that at which it could be bought for cash.

In the distribution of securities on instalments, the management of the business and the cost of collecting instalments create an expense materially higher than that of a cash business. This expense must be met somewhere. As the proposed corporation would have no capital or merely a nominal one, the burden of these expenses must be on the beneficiary. Let us consider this important question and see how far it interferes with the economical operation of the company. All corporations must pay the cost of marketing their securities, whether in the form of underwriters' profits or of advertising. It is incon-

ceivable that a corporation would not be willing to pay as much to place its securities with small holders as with a syndicate of bankers; the fact is, it would willingly pay much more. There is a difference between the price the public is expected to pay for securities in the open market and the price the issuing corporation receives in cash for them. This difference represents either profit to underwriters or expense of marketing securities in some other way than through underwriting. This amount, which represents a large part of the profits of some great financial houses, and at times runs into very large figures, could evidently be saved by the proposed association and could be used to meet the cost of selling contracts and collecting instalments.

While the business should be conducted as economically as possible and as nearly as may be on the same basis as a cash business, yet it should be extended as rapidly as conditions warrant. This extension and the contemporaneous education of the public can be brought about only through the expenditure of large sums of money, and without extravagance very large amounts in the aggregate can be spent and still provide for the small investor a much larger return than is available under present conditions. This increased expenditure can be met in either of two ways. First, it may be done by putting the securities on the market at such a price above cost will offset the expense; but obviously, if the cost ran high enough it would compel the buyer on instalments to pay a higher price for his securities than the cash buyer, which should be avoided if possible. A second and better method would be to pay a lower rate of interest during the life of the instalment contract than is received on the securities themselves. To put the matter in another, and perhaps simpler way, let us treat the payments on contracts as saving deposits accumulated for a specific investment purpose, and let us pay such rate of interest thereon as the corporation can afford. When it is appreciated that in the end the buyer will receive the full amount of the increment which has inured to the securities purchased, and at that time will also begin to receive the full rate of interest paid by the securities, he will be found quite willing to make the temporary sacrifice which comes from the temporary receipt of a rate of

interest even slightly less than he would get from a deposit in a savings bank. In fact, a large percentage of investors will be men who have no access to savings banks, and any interest paid on their investments during the payment period will be more than they can get in their local banks. This is not a theoretical assumption, but has been proved again and again by experience.

To take a concrete case, let us assume that the gross cost of selling securities or contracts is 5 % and the cost of making collections thereon 2 %. We will put aside an additional 2 % for contingencies, making a total expense of 9 %. Let us further assume that the average cost of securities through large purchases and underwritings is 3 % less than the price at which they are offered to the general public. Anyone familiar with the purchase of securities and the manner in which the large bond houses obtain them, knows that 3 % is a moderate discount for an average underwriting, except in the most conservative bonds such as come within the legal requirements for savings banks and life-insurance companies, and these securities would rarely, if ever, interest the association. As the association would stand in exactly the position that banking and bond houses do in buying at first hand, and as it would have an additional advantage coming through the distribution of the securities among the people, it is likely that the average gain would be nearly double the 3 % suggested; but we will confine ourselves to the lesser figure. Assume the earnings on the most conservative class of investments to be 4¾ %, the life of the contract to be six years on the average, and the contract to be for one thousand dollars; then the association has the sum of five hundred dollars in its hands for six years or the full sum of one thousand for an average of three years. If it pays the contract holder 3 % on such an amount of his money as it has in its possession for six full months, it will save about 1⅞ % per annum, or a total of 5⅝ %, which, together with the saving in the purchase of securities, namely, 3 %, would make up 8⅝ % of the 9 % which has been designated as the cost of doing business. There would be other sources of saving through lapsed and surrendered contracts. In all instalment business care must be taken to protect the organization from loss in case of for-

feiture. As previously stated, this protection may go so far as to be a drastic penalty on the unfortunate contract holder, or it may be so moderate as to entail a burden on those who courageously carry through their contracts. The latter evil is as great as the former. A middle course should be followed whereby a person who is unable to carry his contract through will receive a fair return, but whereby a distinct advantage will be given to those who carry out their contracts in good faith. The courageous and persistent investor should get every benefit which comes from his persistence; and further, a somewhat severe surrender or forfeiture clause introduces the element of compulsion necessary to success. It will be found that the forfeiting member expects to stand a penalty and is willing to take in good faith whatever may be determined upon as his allotment, provided all the conditions of the contract as to forfeiture and surrender value are outlined in clear language and explained to each subscriber at the time of signing. There can be no claim of injustice when it is recognized that no inner circle of promoters derive a benefit, but that the reasonable penalties exacted are for the benefit of the business as a whole. In a large instalment operation the surrenders will range from 20 to 30 % of the total amount written. Most of these lapses will come during the first three months of the life of the contract, and on the basis of fair surrender rates the total cash received from forfeitures and surrenders, over and above all expenses on these particular contracts, should be about 2 ½ % of the aggregate cash collected in the consolidated syndicate for the given year. This 2½ % would form an additional fund that could go towards expanding the business or decreasing its cost. The safest method with respect to the payment of interest would be to adopt the policy of the savings banks, namely, to agree to pay to the subscriber the difference between the amount received in interest and the cost of doing the business as determined by the board of trustees. It appears fairly certain that during the life of the contract the net amount paid to the contract holder would average at least 3½ % per annum, and on group 2 (semi-conservative) and group 3 (semi-speculative) should be considerably more. The question as to whether syndicate shares

should be delivered from time to time as paid for, or whether the certificates should be held in trust by the association until the complete contract is fulfilled, is largely a matter of policy.[1]

A corporation formed on these lines should do a volume of business equal to that of a large life-insurance company. It would be well to issue various forms of contracts, some for even longer periods than ten years in order to meet the needs of those who now, through the investment features of the life-insurance companies, vainly attempt to provide for their own support after their earning capacity has ceased or diminished.

A few years ago, before the investigation of the life-insurance companies in New York state took place, over half the total business done by the companies was some form of investment insurance, or insurance in which the investment element entered. While the character of life insurance necessitated investments yielding neither large return nor increment, the demand for investment insurance was so great that practically all life-in-

[1] Dependable information concerning the average earnings on stocks, bonds and other forms of securities, is of great value in judging the financial possibilities of the suggested plan. Trustees of estates are usually men skilled in financial operations. They acquire large experience in the purchase, management and sale of different kinds of property, and their experience should form a sound basis upon which to determine average earnings of conservative property under the management of men of technical skill. The average trustee has usually no access to special information, nor can he take part in the manipulation of stocks. The stock-market gambler makes money rapidly, but assumes risks in proportion. The trustee's first consideration is the protection of his principal; second, rate of income: third, possibilities of increment. It is somewhat difficult to get detailed information for obvious reasons—the trustee is in a confidential relationship with his *cestui que trust*, and can speak only in a general rather than in a specific way; but through careful investigation over an extended period the writer has secured a good deal of information regarding the earnings of trust properties, which, together with such knowledge as he has obtained through his own experience, has shown a much higher rate of earning than would ordinarily be imagined In determining earnings we must include all increment to capital which is shown in profits, bonds retired at a premium, rights on stock subscriptions and stock dividends. If these are considered, together with the annual dividends, interest or rents, there is little doubt that the return from many trust properties averages from 7 to 9 per cent per annum over a long period of years. The average trustee, or investor, has neither such knowledge nor such power as would be exercised by a great financial investing corporation, and while it would be unwise to promise or anticipate such returns, yet these facts exist, and a mutual investment association would enjoy equally favorable opportunities with the best private investor, and some not available to him.

surance companies gradually drifted into it. Today this has changed. Life insurance is now sold largely as protection, with the investment element purely incidental. Thousands of life-insurance agents have been educated to talk investment insurance. Their incomes have been depleted because they have been deprived of this rich and fruitful field. A corporation like that suggested would find an efficient agency force already trained and easily organized.

Conditions are ripe for the exploitation of this new department of finance. The writer would not hesitate to agree to place anywhere from fifty to a hundred million dollars per annum of these contracts within two or three years after a properly equipped and officered organization was fairly started. The practicability of this scheme has been proved in the writer's own business, where it was necessary to contend with the difficulties which all pioneering enterprises must meet, especially financial enterprises undertaken on novel lines. In the United Cities Realty Corporations, where quite similar types of securities are sold, it was necessary to meet the natural distrust with which the much-abused small investor approaches any new and unknown financial proposition. The promoters, who were frankly attempting to make money for themselves, although along lines of great equity to the buyer, were more or less unknown. Yet, notwithstanding these handicaps, a large amount of securities was sold and if present buying conditions in real estate warranted it this process could continue indefinitely.

The American Mutual Investment Association would enjoy a distinct advantage over ordinary financial institutions in one respect. At the end of each year it would know exactly the amount of money it would have to invest in each of the different types of securities during the entire contract period of five, ten or twenty years. Assume that the output of the association was one hundred million dollars per year, and that of this amount twenty million were sold in group 1 (conservative), sixty million in group 2 (semi-conservative) and twenty million in group 3 (semi-speculative). Making an allowance of thirty per cent for contracts forfeited and surrendered, and assuming the average life of the contract to be six years, the association would be

able to anticipate an income of about eleven million six hundred thousand dollars per annum. These receipts are unvarying through good times and bad, through booms and panics. In the writer's business the receipts from large instalment operations varied scarcely a fraction of a per cent through the panics of 1893, 1903 and 1907. An accurate knowledge of future revenues gives a concern a great advantage in making commitments for investment. If a particularly attractive security is to be offered to-day, it can anticipate its receipts for a number of years if necessary. If, on the other hand, the present market does not warrant large investments, the funds can be put into temporary investments, and commitments may be made a number of years ahead to meet the future requirements of corporations desiring to put their securities into the hands of the people. The association would enjoy another advantage from its ability to place securities in special localities where the distribution might be of great benefit to the corporations issuing them.

The original financing of the mutual association could be done in various ways. Obviously the greatest expense in developing an organization of this kind is the initial outlay. Large sums of money should be used and could be provided by one of the following methods: First, the association might negotiate a temporary loan. This is frequently done in the organization of savings banks where the net income for the first few years would entail an overcharge upon the receipts of that period. This loan could be amply secured and amortized gradually from the subsequent receipts of the corporation. Second, a part of the net receipts from the first series of contracts sold might be set aside to apply to the payment of the capital stock of a promoting organization, which would be sufficiently large to promote a number of the annual syndicates. The money thus advanced could be represented by notes bearing a rate of interest somewhat higher than the average rate of interest derived from the ordinary investments of the association. As the subsequent annual series or syndicates were issued these notes could be proportionately assumed by them, so that at the end of a certain period the entire burden would be distributed proportionately over a number of syndicates, while the money

advanced by syndicate number one would be repaid to it for investment in the ordinary manner. The risk of such a method of capitalization would be almost negligible, as the promotion money would become the first charge or lien on the assets of each series. There would be certain general expenses of organization, such as furniture, books, and the like, which could be charged gradually over a larger number of syndicates and finally liquidated. This method of financing can be done practically without cash. Obviously it may be objected to as placing on the original syndicate an undue risk in case of the failure to float subsequent syndicates. A more attractive method of financing among conservative men might be to organize a promoting or financing syndicate, which could be gradually liquidated in the manner above indicated.

A purely mutual plan of operation is suggested in order to show what could be done without ouside capital and its possible embarrassing entanglements. Were these suggestions purely theoretical, they might be criticized on the ground of impracticability, but corporations have been successfully developed according to both the methods here outlined. The plan has not been applied to the distribution of securities because the same person rarely knows how to handle the instalment buyer and how to deal with great financial undertakings.

An objection may be raised to an organization on purely mutual lines. During the pioneering of any new enterprise, men can scarcely be expected to give the amount of time and energy necessary to cope successfully with the innumerable problems which arise in creative work. Purely mutual organizations are usually later developments, growing up after the ground has been cultivated and after the success of the particular kind of business has been achieved through great individual effort. It may justly be said that men who assume the responsibility involved in building such a structure should receive some of the emoluments arising therefrom.

This objection may be met by a form of organization which has been proved equitable, and at the same time practical and successful. This is a corporation organized for profit, but with the profit so adjusted as to place no burden on the investor, to keep his interest identical with that of the corporation, and ulti-

mately to insure large profits to the successful promoters. This corporation would sell securities in the same manner as the mutual corporation, with this difference, that while no charge whatever would be made for the services of the promoting corporation until after a given rate of interest had been earned for the investors, after that interest had been earned a certain pro-rata of the excess earnings of the enterprise would go to the promoting corporation. To illustrate, instead of issuing to the investor certificates or shares representing exclusive ownership, preferred certificates could be issued providing that the first five per cent per annum of the earnings of the consolidated syndicate be paid to the investor, and that in case the earnings exceed five per cent, the excess be divided equally (or in some other proportion) between the preferred shares and the promoting corporation, which might hold the common or controlling shares as representing its interest. In this manner, the promoting organization would be entirely dependent upon the success of its investments for its profits. The writer has found not only that investors of capital are willing to give up a share of the profits to men who are making a success of their business, but that in most instances they prefer to feel that those who are successful in an enterprise should share in the fruits of their success. Whether the corporation be mutual or otherwise, its constitution should provide that no commissions, emoluments, or advantages of any kind may accrue to the management or board of trustees other than those expressly provided for. If the profit-sharing form of corporation were adopted, there ought to be no difficulty in finding ample capital to place the enterprise on a sound financial basis, and should such a corporation be successful, the profits to the promoters would be exceedingly large through the enormous business done. This type of organization is practical and flexible and has great earning power. The advantage of a purely mutual organization is that its disinterested purposes would be instantly recognized; its ideals would be accepted at their face value; its career would be watched with intense interest, and if it were successful its example would be copied widely. There is little doubt that men of national reputation would be glad to give their services to a movement having such public significance.

CHAPTER VII

Evils of Corporation Control

THE facility with which capital passes under the control of strong groups of individuals creates one of the most serious problems of modern times. The larger the organization, and the more diversified its character, the more easily does it seem to lend itself to manipulation.

The political economist appreciates the gravity of a situation where capitalistic groups gain constantly larger powers over widely divergent enterprises. The problem is complex; it is difficult to define cause or to suggest remedy. The evil of centralization has so insidiously permeated our financial, industrial and commercial life that every serious attempt at decentralization menaces the prosperity of the country. The statement has been made with some semblance of accuracy that a single group of bankers have power to make or destroy any enterprise of great magnitude in the United States. It has also been said that no large organization, however meritorious, has any chance to secure the capital it requires if the business of that organization seriously threatens any property which these great interests either own or have under their immediate protection. It is no longer necessary to buy up legislatures, as capital can do better by managing political parties through banking interests. It is no longer necessary to eliminate competition by absorbing or destroying, as was done in the early days of the Standard Oil Company, for the maintenance of prices with a reduction of output is more economical and less brutal.

Corporations are created upon the presumption that control should rest in a majority of the stock. It usually takes much less than a majority interest to dominate corporations if the stock is widely distributed. The ownership of twenty per cent of the stock of some of the great corporations of this country may carry control of the whole corporation. The facility with

which corporate organizations can be managed has encouraged their use for personal and selfish purposes. In certain types of corporations men use their power as if they were handling their own personal property, and in certain sections of the country business practise gives tacit consent, if not approval, to these methods. "To the victor belong the spoils," is a rule not universally but frequently applied to the management of corporations in America. As distinguished from such usual methods we find, on the contrary, many corporations conducted by men of strictest probity, and in accordance with the highest standards of business ethics,—a fact indicating that abuses of power are not universal or necessarily permanent.

This brings us to a consideration of the final phase of our subject. Granting the need of investment opportunity for the masses, the existence of ample fields for the safe and profitable employment of money and the practicability of the above plan for distribution of securities, what will be the outcome of such a scheme on the evils of control? Will it facilitate control by powerful individuals or will it make it more difficult? Will it tend to accentuate or lessen the abuses of such control? In considering the subject we should keep clear the distinction between control and the abuses of control. By our plan control may conceivably be made more difficult, while the abuses of control are made easier and safer; on the other hand, the facility of control may not be affected, while the evils arising from such control are eradicated.

The best answer to these questions can be derived from a study of the history of corporations analogous in character to the one here contemplated. If it can be shown that corporations in which men of small means have a substantial interest exhibit none or few of the abuses generally prevailing, it is a fair presumption that the same conditions will ultimately prevail in any other class of business in which the small investor is educated to place his savings.

Let us take our first illustration from the savings banks. They are the only large financial organizations in this country in which the small investor has an interest in his investment at the same time direct, simple and intelligible to him. During

the past thirty or forty years a code of legal regulations has come into existence guarding the interests of the management and of the investor to a degree of perfection almost without parallel in modern law. This development has come about gradually, almost unconsciously, as a recognition of the responsibility which is taken by those selected for the guardianship of the savings of the poor. The standards are partly self-assumed by the men selected for the management of savings banks, but they have also grown out of the fact that every depositor is vitally interested in the protection of his property. It is but fair to assume that gradually the same measure of protection will come into existence in connection with corporations engaging in other lines of business, when the ownership of such corporations is sufficiently distributed among the same class of investors.

Life insurance is another illustration, somewhat more complex in character, and less simple as an example. The policy holder is an instalment purchaser, but ordinarily speaking he is much more concerned in life insurance than in investment. The investment feature of a life-insurance policy is incidental. At the time of the great insurance investigations the first thing the life-insurance companies did was to bring forth indisputable evidence as to their solvency. This was the immediate concern of the policy holder, and once satisfied on that point he lost interest, owing to the complex character of the investment feature in this policy. No matter how brazenly the heads of the great life-insurance companies have used their power for personal ends, it has rarely been to the extent of jeopardizing the solvency of the business. Under present conditions the management of such companies leaves little to be desired, and it is fair to believe that the most prosperous companies in the country will be those making the best record for clean business and satisfactory earnings.

The most conspicuous example of the working out of a national policy controlling the minute distribution of property is to be found in France, where all grades of society are in the habit of investing in approved securities of every kind, where the acquisition of property, in fact, has become almost a national

passion. Surrounding investments under French methods we find an almost ideal fabric of protective measures, both social and legal. To become bankrupt in France is equivalent to social suicide. The Frenchman is jealous of his reputation for conservatism, because such a reputation is essential to any kind of business success. If the personal control of great corporations in France is possible, such control is subject to safeguards beyond our conception. The minority interests in French corporations have rights which are entirely unknown in this country. It is not important whether these laws have grown up as a result of the habit of investing in securities by people of small means, or whether the acquisition of such securities has been the sequence of good law. The two are now co-existent, a part of a whole making for the prosperity of the French nation. The vital fact is, that if men of small means are in the habit of utilizing their savings for any type of purchase, laws come into existence which give them ample protection. Give the small saver a simple and definite right in any kind of property, and he will see that his right is safeguarded. A capitalist of fair social standing may manipulate stock of a Wall-street corporation with impunity, when he would hesitate a long time before facing the indignation of a mob of savings-bank depositors. The effort of the United States Steel Corporation to distribute stock among employes is commendable, though badly handled, but the lesson to be learned is neither the spirit nor the method, but the result upon the management of a diversified ownership of a corporation by its own employes. Every protection is thrown about these investors to safeguard them against loss or discontentment. It is an illustration of the attitude of the man of right instincts and liberal training when dealing with the funds of the masses. In America the distribution of investment securities among people of small means has been in the hands of those who fear neither social ostracism nor the arm of the law. But let men of reputation make plans for the distribution of securities among the common people, and we shall find automatically growing an increasing sense of responsibility and mutual respect between the investor and the management, with all necessary legislation to protect both. It would therefore

seem reasonable to suppose that whether or not control of corporations would be made more difficult by our plan, the flagrant abuses of control which now prevail, because they are to a certain extent looked upon as a part of the gambling game, would be quickly reduced and in the end substantially eliminated.

THE POLITICAL SCIENCE QUARTERLY

The Quarterly, published for the Academy, is under the editorial control of the Faculty of Political Science of Columbia University, and is devoted to the historical, statistical and comparative study of politics, economics and public law.

Its list of **contributors** includes university and college teachers, politicians, lawyers, journalists and business men in all parts of the United States, and European professors and publicists. It follows the most important movements of foreign politics but devotes chief attention to questions of present interest in the United States. On such questions its attitude is nonpartisan. Every article is signed; and every article, including those of the editors, expresses simply the personal view of the writer. Each issue contains careful **book reviews** by specialists, and in March and September large numbers of recent publications are characterized in brief **book notes.** In June and December is printed a valuable **record of political events** throughout the world.

Communications in reference to articles, book reviews and exchanges should be addressed to the managing editor, Professor **Munroe Smith,** Columbia University, New York City. Intending contributors are requested to retain copies of articles submitted, as the editors disclaim responsibility for the safety of manuscripts. If accompanied by stamps, articles not found available will be returned. Members of the Academy receive the Political Science Quarterly without further payment.

THE ACADEMY OF POL

IN THE CITY OF N

President
SAMUEL MCCUNE LINDSAY

Vice-Presidents
ALBERT SHAW
PAUL M. WARBURG

Secretary
HENRY RAYMOND MUSSEY

Treasurer
GEORGE A. PLIMPTON

Assistant to the President
EMMA S. LAKE

Editor of the Political Science Quarterly
MUNROE SMITH

Editor of Proceedings of the Academy
HENRY RAYMOND MUSSEY

Trustees
ROBERT ERSKINE ELY
FRANK J. GOODNOW
A. BARTON HEPBURN
THOMAS W. LAMONT
WILLIAM R. SHEPHERD
HENRY R. SEAGER
EDWIN R. A. SELIGMAN
MUNROE SMITH
FRANK A. VANDERLIP

Advisory Council
NICHOLAS MURRAY BUTLER
CHARLES E. HUGHES
J. PIERPONT MORGAN
ELIHU ROOT
FRANCIS LYNDE STETSON

The Academy of Political Science, founded in 1880, is composed of men and women interested in political, economic and social questions. The **annual dues** are $5. Members receive without further payment the four issues of the Political Science Quarterly and the four issues of the Proceedings, and are entitled to free admission to all meetings, lectures and receptions under the auspices of the Academy. Two regular meetings are held each year, in April and November.

The Fall meeting of 1910 was made the occasion of a National Monetary Conference, and the Spring meeting of 1911 of a Conference on The Reform of the Criminal Law and Procedure. The papers presented at these meetings, together with other important contributions, are published in full in Volume I of the Proceedings of the Academy.

The Fall meeting of the Academy will be held on November 10th and 11th and will be devoted to "Business and the Public Welfare." The annual dinner will be held at the Hotel Astor on the evening of November 10th.

Communications regarding the Academy should be addressed to **The Secretary of the Academy of Political Science,** Columbia University.

LBMr '12

LIBRARY OF CONGRESS
0 021 183 089 A